

Analysts: Leanne Fook; James Gunn

Products Facts

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|------------------------------|--------------------------|-----------------------|---------------------------------|-----------------------|---------------|
| Manager | Investors Mutual Limited | Fund type | Wholesale | Boutique | Yes |
| APIR code | IML0001AU | Specialisation | Value | Multimanager | No |
| Fund status | Closed | Peer group | Australian Equities - Small Cap | Inception date | June 15, 1998 |
| Min. investment (A\$) | 500000 | | | ICR (% pa) | 0.97 |

Standard & Poor's View

S&P rates this fund three stars, reflecting our conviction that the manager will consistently generate risk-adjusted returns in-line with both its relevant investment objectives and its peers.

S&P has upgraded the rating of this fund from two stars to three stars. The previous rating reflected S&P's concerns about instability in the investment team due to high staff turnover, and about the capacity of the manager to make full use of analysts' input in the investment process. Investors Mutual Ltd. (IML) has replaced lost staff, albeit with analysts who have less direct experience of funds-management. It has also introduced a new equity scheme to retain staff.

There is a high level of experience in the management of IML's small-cap portfolios. Simon Conn continues his role as portfolio manager for these funds, bringing a strong element of continuity to the product. Unfortunately, the earlier staff departures did affect the small-cap products because two of the departing analysts were small-cap specialists, and the team was restructured in 2008 to support the portfolio managers across both the large- and small-cap products. We note that the new analysts are less experienced than their predecessors, but we consider they have the appropriate background and experience.

S&P has noted that boutique managers often need to ensure that their founders contribute to the investment process because they are usually the most experienced members of the investment team, while also allowing the best ideas from other team members to be incorporated in portfolios and encouraging a culture of healthy debate. If this balance cannot be maintained, the process can become dominated by a single strong personality. S&P believes this contributed to past staff dissatisfaction and acknowledges that IML management has attempted to address the problem.

Product Features

The IML Australian Smaller Companies Fund is closed to new investors.

The fund will typically invest in 20-70 stocks outside the top 100 stocks listed on the Australian stock exchange. The cash allocation is limited to 20%, and the manager has been prepared to go to cash in markets where it considers there to be few value-driven opportunities.

Portfolio turnover is very low (20% per year) which should increase the tax-effectiveness of this product, particularly for investors with high marginal tax rates.

Historically, the portfolio has held underweight exposures to the energy and materials sectors, and overweight exposures to the industrials and consumer discretionary sectors.

The fund's fee structure is one of the lowest in the S&P peer group with a management fee of 0.974% per year and no performance fee.

Fund Objectives

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|-------------------------------|--|
| Benchmark | S&P/ASX Small Ordinaries Accum Index |
| Target return (% p.a.) | Outperform benchmark over rolling 4 year periods |

Investment Style

IML manages the fund using a conservative, value-investment approach. Although it benchmarks to the S&P/ASX Small Ordinaries Accumulation Index (excluding property trusts), capital preservation is a key tenet of the IML approach. Stock selection focuses on identifying good-quality companies at appropriate valuations. Highly-leveraged, and cyclical stocks typically will have underweight exposures to the benchmark, or be excluded.

| | | | | | | |
|------------------|--|--|--|--|--|------------------|
| Passive | | | | | | Active |
| Value | | | | | | Growth |
| Small Cap | | | | | | Large Cap |

Investment Team

Previously, S&P noted its concerns about significant instability in the IML investment team with its high level of staff turnover. S&P was also concerned about the ability of the manager to make full use of the analyst team's inputs in the investment process. IML has replaced lost staff, albeit with analysts who have less direct experience in funds management. It has also introduced a new equity scheme to retain staff.

Anton Tagliaferro is the founder of IML and has over 20 years' experience managing value portfolios. Mr. Conn is responsible for the overall management of the IML small-cap funds. Mr. Conn has 14 years' investment experience, 10 of which have been with IML. In addition to Mr. Tagliaferro and Mr. Conn, the team includes one portfolio manager (who also has analytical responsibilities), five equities analysts, and two quantitative analysts.

Staff retention has been a problem for the team, which has undergone significant change over the past two years. In February 2008, Paul Frost (senior portfolio manager large-caps), and Shaun O'Malley (equity analyst) left IML and were replaced by Chris Prunty and Mark Wade. Mr. Prunty is currently dedicated to small-cap research. Mr. Wade is participating in IML's newly introduced rotational trainee program and is also working with Mr. Conn on small-cap stocks. In June 2008, another three investment team members resigned: equities analysts,

Peter Moller and Tony Waters; and research/quantitative analyst Vessela Tasker.

Mr. Conn has extensive experience analysing small-cap stocks and has been the portfolio manager responsible for IML's small-cap products since 2003. This experience provides a strong element of continuity in the management of the small-cap portfolios. However, the loss of Mr. Moller and Mr. Waters was significant because both had strong small-cap backgrounds and were actively involved in supporting these products.

Following the second round of departures, Julian Beaumont and Robert Bishop joined the team as equity analysts, in addition to two quantitative analysts, Andrew Harrison and Paul Winter. Mr. Harrison has an extensive background in quantitative funds-management and trading systems. He has joined IML on a part-time basis and is largely involved in developing IML's trading systems. He has minimal influence on portfolios.

The two new fundamental analysts have sell-side and investment-banking backgrounds, but IML is their first experience of funds management. S&P considers that these analysts have the appropriate skills but there will be a period of adjustment as they gain experience on the "buy" side.

The investment team is structured to support the portfolio managers across both the large- and small-cap products. Previously, IML assigned responsibilities to analysts based on a company's market capitalisation, and there were distinct large- and small-cap teams. The relative inexperience of the new analysts may mean that it takes some time to build up the same level of knowledge as the previous team. A positive development is that one of the new analysts, Mr. Bishop, has a solid technical background in the resources industry, which, historically, is a sector that IML has largely avoided.

Analysts' remuneration comprises: a base salary, a short-term incentive plan linked directly to analysts' model portfolios, a profit-share arrangement, and a recently introduced equity plan in non-voting shares. S&P believes that these measures should assist in improving staff retention.

| | | | | | |
|----------|--|--|--|--|-------------|
| New | | | | | Experienced |
| Small | | | | | Large |
| Unstable | | | | | Stable |

Investment Process

The investment process is straight forward and appropriate for a manager with this bottom-up, value philosophy. The manager screens the entire ASX universe using liquidity and quality filters to reduce the investable universe to approximately 350 stocks. It then ranks the investable universe by sector and by value to identify stocks for further in-depth analysis.

Analysts undertake a five-step assessment of a company that includes segmental analysis, company contact, research reports, valuations, and the setting of price targets. The manager requires analysts to indicate a confidence ranking that describes their level of conviction in the company's future earnings.

Companies identified as attractive are then considered for inclusion in the portfolio. The portfolio-construction process is designed to skew the fund in favour of those stocks that IML considers to be the most

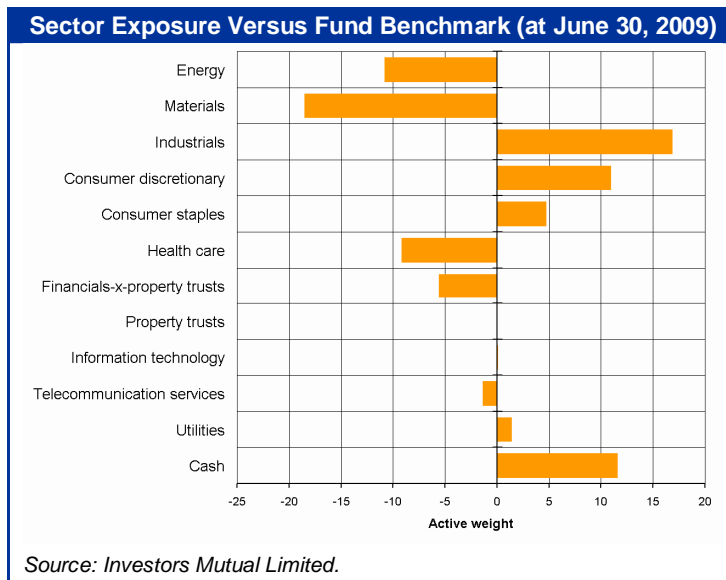
undervalued or those in which the analysts have the highest conviction. There are a series of portfolio construction guidelines in place to ensure adequate diversification.

Performance

The fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index (excluding property trusts) over rolling four-year periods.

Over the five years to June 30, 2009, the fund returned 3.7% per year (after fees), underperforming its benchmark by 3.5% per year. The fund has also underperformed its benchmark over three and seven years.

| Performance Measures | |
|--|-------|
| Average portfolio turnover (%) | 20 |
| Typical number of stocks in portfolio | 20-70 |
| <i>Source: Investors Mutual Limited.</i> | |



Risk Management

There are two elements to risk management for the fund: a conservative investment philosophy and focus on capital preservation, and a series of portfolio-construction guidelines that aim to ensure adequate diversification.

The portfolio will typically hold between 20 and 70 stocks. Portfolio construction guidelines include stock, sector, and size limits. Derivatives are used only in the management of portfolio risk and cash flows, with no gearing permitted. The portfolio's cash allocation is limited to 20%.

Management Group Profile

Mr. Tagliaferro established IML as a specialist Australian-equities manager in May 1998. The current ownership structure has been in place since Jan. 1, 2009, when a new class of non-voting shares was issued as part of a revised staff-equity plan. Treasury Group owns 47.5% of the business and Mr. Tagliaferro and key staff own the balance. Key investment staff own about 10% of the business.

Market Share

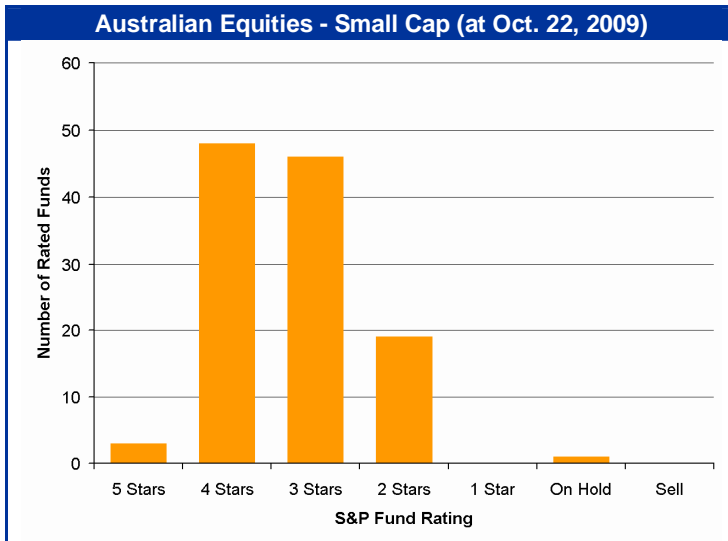
At Aug. 31, 2009, IML had A\$3.36 billion in funds under management (FUM). It continues to have a strong focus on servicing its retail investor base.

Analysis by the manager indicates that at current FUM levels, capacity is not a consideration.

Analyst(s): Leanne Fook; James Gunn.

Release authorised by: Leanne Milton.

S&P Fund Rating Reference Information



Reference Material

Sector Reports
www.standardandpoors.com.au/funds

Reader's Roadmap
www.standardandpoors.com.au/funds

Glossary
www.standardandpoors.com.au/funds

Guide to S&P Qualitative Fund Ratings
www.standardandpoors.com.au/funds

Fund Rating Team Biographies
www.standardandpoors.com.au/funds

Fund Rating Peer Groups by Sector

| Australian Equities | International Equities | International Fixed Interest | Alternative Assets |
|-----------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|
| Large Cap Diversified | Diversified Equities | Diversified Fixed Interest | Commodities |
| Large Cap Income | Emerging Markets | Diversified Fixed Interest Income | Multi-Sector |
| Large Cap Indexed | Emerging Markets Asia ex Japan | Fixed Interest | Private Equity Listed |
| Large Cap Industrials | Emerging Markets China | Fixed Interest High Yield | Private Equity Unlisted |
| Long Short | Emerging Markets India | Fixed Interest Income | Infrastructure Listed |
| Small Cap | Large Cap Diversified | Mortgages | Infrastructure Unlisted |
| Specialist | Large Cap Income | Mortgages High Yield | Alternative Strategies |
| Australian Fixed Interest | Large Cap Indexed | Mortgages High Yield Hybrid | Single Strategy Funds Multimanager |
| Cash | Large Cap Industrials | Mortgages Conventional | Single Strategy Funds Single Manager |
| Cash Enhanced | Long Short | Mortgages Hybrid | Multi-Strategy Funds Multimanager |
| Fixed Interest | Long Short Specialist | International Property | Multi-Strategy Funds Single Manager |
| Fixed Interest Income | Long Short Regional | Direct Commercial | Multi-sector |
| Mortgages | Regional Japan | Direct Development | Capital Guaranteed |
| Mortgages High Yield | Regional UK/Europe | Direct Diversified Direct | 20 |
| Mortgages Conventional | Regional US | Direct Industrial | 40 |
| Mortgages High Yield Hybrid | Regional Asia | Direct Residential | 60 |
| Mortgages Hybrid | Small Cap | Direct Retail | 80 |
| Australian Property | Specialist Healthcare | Direct Rural | 100 |
| Direct Commercial | Specialist Information Technology | Direct Specialised | Equity |
| Direct Development | Specialist Resources | Diversified Property | Other |
| Direct Diversified Direct | | Listed | |
| Direct Industrial | | | |
| Direct Residential | | | |
| Direct Retail | | | |
| Direct Rural | | | |
| Direct Specialised | | | |
| Diversified Fixed Interest Listed | | | |








Fund Rating Philosophy

A star rating is a forward-looking qualitative assessment of a manager's ability to consistently generate risk-adjusted fund returns (net of fees) in excess of both its relevant investment objectives and its peers.


Fund Rating Process

In assigning a star rating to a fund, Standard & Poor's evaluates: the size, skill, and stability of the manager's investment team; the clarity, implementation, and risk management of the investment process; the fund's objectives, fee structure, and portfolio characteristics; and the manager's business management.

Fund Rating Definitions

| | |
|--|--|
|  | Standard & Poor's has very high conviction that the manager will consistently generate risk-adjusted fund returns in excess of its relevant investment objectives and relative to its peers. |
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|  | Standard & Poor's has conviction that the manager will generate risk-adjusted fund returns in-line with its relevant investment objectives and relative to its peers. |
|  | Standard & Poor's has conviction that the manager will not generate risk-adjusted fund returns in in-line with its relevant investment objectives and relative to its peers. |
|  | Standard & Poor's has high conviction that the manager will not generate risk-adjusted fund returns in-line with its relevant investment objectives and relative to its peers. |
|  | Issues that may affect the fund's management have emerged; and the fund rating is temporarily suspended, pending clarification. |
|  | Significant issues exist that potentially will adversely affect the fund's performance. Investors should consider obtaining advice on switching or redeeming funds. |

Fund Rating Subscript

 The investment process, fund manager, or the fund has a relatively short history, or the analytical team has changed significantly, but a relevant and demonstrable track record is shown on similar funds.

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